

VZCZCXYZ0013
OO RUEHWEB

DE RUEHSJ #0299/01 0461732
ZNR UUUUU ZZH
O 151732Z FEB 07
FM AMEMBASSY SAN JOSE
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7246
INFO RUEHMU/AMEMBASSY MANAGUA PRIORITY 4782
RUEHQT/AMEMBASSY QUITO PRIORITY 1295
RUEHPE/AMEMBASSY LIMA PRIORITY 0959

UNCLAS SAN JOSE 000299

SIPDIS

CODEL

SIPDIS

E.O. 12958: N/A

TAGS: [OREP](#) [OTRA](#) [PREL](#) [PGOV](#) [WHA](#) [ECON](#) [CS](#)

SUBJECT: SCENESETTER FOR CODEL NELSON'S VISIT TO COSTA RICA

REF: STATE 15976

¶1. SUMMARY: Embassy San Jose warmly welcomes CODEL Nelson. The visit comes at a key point in the approval process for the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA). CAFTA is a key element in President Arias's agenda to modernize the country and begin to rebuild its creaky infrastructure, domestic security apparatus and education system. A comfortable majority of Costa Ricans (and a two-thirds majority in the legislature) favors CAFTA, but the ratification and implementation process has been hyper-legalistic and slow. The hard core of opponents has not given up; the next national anti-CAFTA protest is planned for February 26. Nevertheless, the government is reasonably confident that the first of two required ratification votes could take place in April, with CAFTA being fully ratified by mid-year. Implementation will take longer. The economy performed well in 2006, fueled by CAFTA-hopeful investment. The government continues to be a reliable partner in confronting drug and migrant trafficking, despite limited resources. USG-supplied equipment and training has been essential to supporting Costa Rica's security forces, but current assistance levels are only a fraction of what they were in the 1980's. It is the growth that will be fueled by trade, not aid, however, that will provide Costa Rica with the resources it needs to modernize and develop in the long run. The Arias Administration's top foreign policy priority is election to the UN Security Council for the 2008-2010 term. On Nicaragua, the Arias team has taken a wait-and-see approach following Daniel Ortega's election.
END SUMMARY.

CHALLENGES AT HOME

¶2. Returning to office in 2006 after a 16-year hiatus, President Oscar Arias faces a number of challenges. He won a surprisingly close election, defeating Otton Solis of the Citizen's Action Party by a margin of less than two percent, and his National Liberation Party won only 25 of 57 seats in the National Assembly. He took the helm of a well-developed democracy, with a history of stability and relative prosperity (per capita income is approximately USD 4,700). On the other hand, recent previous administrations accomplished very little, three former presidents face corruption allegations and Costa Ricans thus have less confidence in their governing institutions.

¶3. Costa Ricans also suffer the effects of the nation's creaky infrastructure and increased crime. Only one-fourth of students entering the public school system graduate from high school. The judicial system is broken; of 37,000 robbery cases opened in 2005, for example, only three percent ended with a conviction. In World Bank rankings, Costa Rica places 159th out of 175 in countries measured for protecting investors, and 114th in enforcing contracts. On other key measures of international competitiveness, Costa Rica

is also slipping. The country dropped from 99th to 105th overall on the World Bank's 175-country "Doing Business Index" for 2006, and in the key measure of paying taxes, ranked 160th out of 175.

AMBITIOUS AGENDA; GROWING SUPPORT

¶4. Arias's agenda goes right to the heart of these problems, based on the twin pillars of fiscal reform (overhauling the tax system) and a more open and competitive economy (enacting CAFTA-DR, reforming the telecom and energy sectors, establishing an effective concessions system, and creating jobs). These reforms should provide Costa Rica the resources to modernize infrastructure and institutions, increase spending on education, and invest in a more robust domestic security apparatus. Costa Ricans increasingly believe that Arias will deliver on his agenda two out of three in the January CID-Gallup poll) The same poll shows a 68 percent personal approval rating for Arias (up from 60 percent in October), with 54 percent describing his presidential performance as "good or very good" (up from 50 percent in October). Arias's goals are fully consistent with the four pillars of USG policy in the hemisphere: consolidate democracy, promote prosperity, invest in people and protect the democratic state.

CAFTA: 2007 IS THE BIG YEAR

¶5. Ratification and implementation of CAFTA is a central component of Arias's development agenda, and it is the U.S. Embassy's top foreign policy objective. The Arias Administration inherited CAFTA, an initiative he and his party have always supported. The previous government signed the agreement in August 2004 and submitted it to the legislature in October 2005. After a slow start, the Arias administration picked up momentum in late 2006. A long-planned national anti-CAFTA protest fizzled in October and a costly dockworkers strike in the major Caribbean port of Limon was resolved peacefully. The administration recently has formed a five-party, 38-seat working coalition to push initiatives through the 57-seat legislative assembly. This super-majority voted the CAFTA bill out of committee in December, after 278 hours of hearings.

¶6. In January 2007, the super-majority also approved rule changes which would limit CAFTA floor debate and accelerate consideration of the implementation agenda. In February, procedural obstacles slowed progress, and the opposition filed a constitutional challenge to the rule limiting debate. A Supreme Court ruling is expected in March. Even with this delay, the Arias Administration is reasonably confident that the first of two required ratification votes could take by early April, with CAFTA being fully ratified by mid-year.

¶7. Challenges remain, however. CAFTA opponents in the legislature are making full use of complex, arcane rules and procedures which favor obstructionism. In order to enact the 13 bills that would implement CAFTA by the February 29, 2008 deadline, the government will have to move faster than all the other CAFTA countries. Anti-CAFTA labor union and student groups have set the next national protest for February 26. With 62 percent of those who know about CAFTA in favor of it (according to the January CID-Gallup poll), and a ratification vote approaching, the opposition is running out of time, and becoming more shrill. The government has made clear that the public has the right to demonstrate, but roadblocks and other disruption to public order (features in past demonstrations) will not be tolerated.

ECONOMIC SNAPSHOT

¶8. The Costa Rican Central Bank (BCCR) reports that the country's GDP grew at over 7 percent in 2006, the highest since 1999. Foreign Direct Investment increased from \$861 million in 2005 to \$1.4 billion in 2006. Much of the economic growth was in anticipation that CAFTA would enter into force in 2007. If that is not the case, the investment-fueled growth is likely to dry up. Inflation declined from 14.4 percent in 2005 to 9.4 percent in 2006. Surprisingly, the tourism industry grew only 1.8 percent in 2006, although it remained

the largest employer and earner of foreign exchange. Other key sectors such as agriculture and free trade zone manufacturing also showed marked improvements in 2006. Costa Rica imports more from, and exports more to, Florida than any other U.S. state; in addition, Florida constitutes the number one destination for Costa Ricans traveling to the U.S.

TRAFFICKING IN DRUGS AND MIGRANTS

¶9. Despite the government's limited security resources, Costa Rica continues to be a reliable partner against transnational drug and migrant trafficking. In 1999, Costa Rica was the first nation to sign a bilateral maritime agreement with the United States, which authorized joint patrols in Costa Rican waters. Since then, the record has been impressive. U.S. and Costa Rican forces teamed up to seize over 25 metric tons of cocaine in 2006, a record. In January 2007, another six metric tons were seized. These successes underscore the magnitude of the drug flow through the region. In October 2006, joint U.S.-Costa Rican cooperation rescued 128 Chinese migrants abandoned at sea by smugglers. They were returned to Peru (their port of embarkation). Costa Rica remains historically reluctant to participate in anything suggesting "militarization," which has limited Costa Rican participation in regional cooperation on security issues.

U.S. ASSISTANCE

¶10. USG-supplied military equipment and training has been essential to maintaining and improving Costa Rica's security forces, but current assistance levels are only a fraction of what they were during Arias's first term. The October 2006 waiver of APSA restrictions on International Military Assistance and Training (IMET) funds made \$45,000 available under the FY 2007 Continuing Resolution. The President's FY 2008 budget included a request for \$88,000 in IMET funding for Costa Rica. State Department counternarcotics assistance has fallen sharply from over \$1 million in FY 2000 to \$100,000 in FY 2006. Given the reduced assistance flows, the Embassy has looked for other creative ways to assist Costa Rica. A State Partnership Program with New Mexico was established in January 2007, offering training and technical assistance from the National Guard. The U.S. Treasury provides significant technical assistance and training to Costa Rica's finance ministry and tax authorities. Meanwhile, other governments have become more prominent donors. Taiwan is providing \$2 million in vehicles and equipment for the national police.

¶11. For President Arias, the foreign assistance issue has a philosophical component. He advocates the Costa Rica Consensus, based on two premises: first, that Costa Rica and other middle-income countries have been unfairly "cut off" from the large foreign assistance flows from the past; second, that countries which invest more in social programs and less for armaments (like Costa Rica) "deserve" additional assistance. Arias also proposes a "Peace with the Environment" initiative which would build a new international "rain forest" coalition, linking countries such as Papua New Guinea, the Congo (and Costa Rica) with international donors. Under these rubrics, Arias advocates debt relief for middle-income countries like Costa Rica.

¶12. It is trade, not aid, that will provide Costa Rica the resources it needs to modernize and develop, however. As a "sustaining partner" according to the State Department's new foreign assistance scale, Costa Rica should be well-placed, especially with CAFTA, to attract needed foreign investment. New U.S. government initiatives are likely to be limited. As a CAFTA signatory, Costa Rica is eligible for a share of the \$40 million in regional trade capacity building. Under the Tropical Forest Conservation Act (TFCA), Costa Rica likely will be eligible for some targeted debt forgiveness.

FOREIGN POLICY ISSUES: UN AND NICARAGUA

¶13. The Arias Administration's top foreign policy priority is being elected to the UN Security Council to fill an upcoming Latin American vacancy for the 2008-2010 term. The government views a Security Council seat as a key prerequisite to furthering its other top objectives, including the Costa Rica Consensus and the Peace with the Environment initiative. On Nicaragua, the Arias Administration has taken a wait-and-see approach following Daniel Ortega's election. With over 300,000 Nicaraguans estimated to be in Costa Rica, and relying heavily on Nicaraguan labor to harvest coffee and perform other manual labor, Costa Rica seeks to handle bilateral relations with its northern neighbor very carefully.
Langdale